Australian Council of Social Service

# Five pillars productivity inquiry

## Australian Productivity Commission

5 June 2025

### About ACOSS

The Australian Council of Social Service (ACOSS) is a national voice in support of people affected by poverty, disadvantage and inequality and the peak body for the community services and civil society sector.

ACOSS consists of a network of approximately 4000 organisations and individuals across Australia in metropolitan, regional and remote areas.

Our vision is an end to poverty in all its forms; economies that are fair, sustainable and resilient; and communities that are just, peaceful and inclusive.

## Productivity inquiry needs a holistic national framework

ACOSS welcomes the Productivity Commission's call for submissions on its priority reform areas. However, we have concerns with the Inquiry's scope and how the PC will undertake its associated work from this point onwards.

ACOSS recommends the Inquiry address productivity with a view to lifting living standards for people who have fallen behind, especially those already experiencing poverty, disadvantage and hardship. Pivotal to this is examining how an active and impactful government can improve people's financial wellbeing via a robust social safety net, employment participation and training policies, quality cost-effective social service systems, and an equitable clean energy transition.

It is well established that growth in productivity and incomes cannot be divorced from distributional concerns, especially if we aim to ensure that the benefits from reform flow proportionately to those in more need. This includes the impact of high levels of poverty, and yawning income and wealth inequality. One in eight adults, and one in six children live in poverty across this country.[1] At the same time, private wealth is increasingly concentrated. Households in the highest 10% by wealth hold 40% of all wealth. Andrew Leigh, the Assistant Minister for Productivity, Competition, Charities and Treasury warns that Australia is only one generation away from US-style

[1] https://povertyandinequality.acoss.org.au/poverty/#poverty-australia

inequality.[2] ACOSS urges the PC to put arresting these alarming trends at the forefront of its approach to national productivity.

Macroeconomic and social policy settings underpin growth in jobs, incomes and national prosperity, in addition to policies traditionally described as microeconomic reform. Public investment in infrastructure and services and the revenue required to finance that investment, plays a crucial role. The five nominated pillars are unduly narrow in scope and miss some of these larger drivers of living standards and growth.

For example, Pillar 1, 'Creating a Dynamic and Resilient Economy', explores corporate tax reform, business regulation and incentives for private investment. ACOSS strongly believes that the most pressing goal for tax reform is to lift public revenues, not reduce them, as well encouraging productive investment. This means that changes to company tax should not be considered in isolation from broader tax and fiscal policies. Pillar 1 ignores the role of company income tax in taxing economic rents in the absence of adequate alternative tax bases, and the distortionary impact of tax concessions that encourage over-investment in property and fossil fuel extraction and use. We summarise these issues below. For further detail on this issue, see Appendix 1.

Pillar 2, 'Building a Skilled and Adaptable Workforce', does not look at how to grow jobs and encourage private investment through full employment, or how to reduce structural and long-term unemployment.

While Pillar 4, 'Delivering Quality Care More Efficiently', has an emphasis on early intervention and prevention, it does not seek to interrogate how to best measure productivity and efficiency in community, care and social services despite the Commission's acknowledgment of the measurement challenges. Nor does it acknowledge[3] the deep and demonstrable failures in human service pseudo-markets over the past thirty years. We refer the Commission to the attached [ACOSS Submission to the Draft National Care and Support Economy Strategy] which calls on Government to rigorously interrogate the role and performance of markets in service delivery and their impact on people accessing services, including considering better designed models and alternatives.

Pillar 5, 'Securing net zero and adapting to a changing climate at least cost', seeks options on Australia's net zero transformation but does not consider equity for low income and disadvantaged households, and their need for affordable, reliable and clean energy in the national transition. We have detailed our response to the Productivity Commission's reform proposals in this area in the attached Appendix 2.

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[2] https://www.theguardian.com/australia-news/2025/may/19/labor-andrew-leigh-focus-productivity-after-us-inequality-warning

[3] https://www.pc.gov.au/research/completed/productivity-before-after-covid/covid-productivity.pdf

Given the above, ACOSS believes that the scope of policies to strengthen productivity, when properly understood and measured, should be much broader than those outlined in the 'five pillars'. Further, the impact of growing inequalities on productivity, and that of pro-productivity policies on addressing damaging inequality, should be carefully considered.

ACOSS is keen to work with the Productivity Commission on this important Inquiry. We urge the Commission to extend the scope of its work. We also invite the Commission to ensure that its processes enable participation by the community sector more widely and groups who are less well-resourced. These groups have a vital interest in lifting productivity in ways that ensure benefits flow to those whose living standards are falling behind.

We look forward to discussing these issues further.

## Contact

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**Appendix 1:**

**Additional comments in relation to Pillar 1:**

## Company tax changes should not be considered in isolation from other tax reform.

The most pressing goal for tax reform today is to lift public revenues, not reduce them, as well as encouraging more productive and innovative investment.

Changes to company tax should not be considered in isolation from broader tax and fiscal policies. This should include consideration of the level of public revenue required to support structural adjustment across the economy (including the clean energy transition and the care economy) and sustainably meet the community's needs (including reducing poverty).

An across-the-board reduction in company income tax would not be a cost-effective way to promote productive investment, since company tax in Australia is, in the main, a tax on economic rents. Almost half of company tax revenues come from mining and banking sector profits, which are largely derived from inadequately taxed resource or monopoly rents. An efficient tax system would rely more on taxes on economic rents, not less.

Across-the-board reductions in company tax for 'smaller' companies are also inefficient, and likely to promote personal income tax avoidance and inequality. There is no evidence that smaller companies are more productive than larger ones. To a large extent, small companies are either the active businesses of individuals with high incomes (e.g. professional practices) or passive investment vehicles used to avoid personal income tax (e.g. private companies linked to discretionary trusts).

Business tax concessions should target productive and innovative investments. To do so without adding fresh layers of complexity to the system is challenging, even in areas such as research and development where we should expect them to be cost-effective. For example:

1. Accelerated depreciation allowances are biased towards traditional goods-producing industries when much of the future growth in national income and employment will come from services.
2. Small business instant asset write-offs have doubtful productivity benefits (and have largely been used to buy new vehicles for business and personal use).

A 'no regrets' approach to tax reform would remove harmful distortions in the tax treatment of different investments so that capital is invested more efficiently, by reducing the bias in the personal income tax system towards speculative investment in property and removing fossil fuel subsidies.

Policies to promote productive investment should consider opportunity costs. Australia's lopsided mining-led economic development has displaced investment in other sectors, for example by lifting the Australian dollar to levels at which export competing industries can no longer survive. Our failure to achieve and sustain full employment has discouraged investment in labour-saving technology, as well as suppressing growth in people's incomes.

## Appendix 2

### Additional comments in relation to Pillar 5: "Securing net zero and adapting to a changing climate at least cost" reform proposals

ACOSS welcomes the opportunity to provide a brief response to the recommendations and reform directives on the topic "securing net zero and adapting to changing climate at least cost, in the Advance Prosperity Inquiry report".

### Securing net zero at least cost

We agree with much of the PC's analysis on achieving net zero and its implications for the measurement of productivity.

We note that, people and communities experiencing disadvantage are at risk of being left behind in the transition to net zero and missing out on the benefits of the transition. Without explicit policies focused on fairness, equity and inclusion and dedicated funding to ensure people experiencing disadvantage and marginalisation benefit from the transition, poverty and inequality in Australia will increase.

We are supportive of the PC's recommendations to expand the scope of the safeguard mechanism and increase the integrity of carbon offsets recognised by the Safeguard Mechanism (SM).

We agree with the PC's concerns that some sectoral and sub-sectoral policies can be more costly than economy-wide alternatives and create distributional concerns i.e. electric vehicle subsidies.

We in-principle support the PC's recommendation to remove "non-complementary" measures, and we would add remove "inequitable distortionary measures".

We in-principle support the PC's recommendation to encourage the Government alongside the SM to include "complementary measures" that "either drives emissions abatement from emissions sources not covered by the SM, addresses market failures that constrain the pursuit of abatement from emissions sources covered by the SM, or deliver broader non-carbon abatement related benefits."

Specifically on the last point, ACOSS would encourage the PC to expand on which 'broader non-carbon abatement related benefits' should be prioritised, including ones that reduce poverty and inequality, close the gap, and support ecological repair.

Going further, we would urge the PC to recommend to the Government that they embed fairness, equity and inclusion principles in the Climate Change Act to guide the development of climate mitigation and adaptation policies and processes.

What was missing from the PC recommendations was any commentary on or recommendations to eliminate distortionary tax measures that are counter to achieving net zero emissions, and would be a drag on productivity. The Australian Institute calculates that in 2024–25, Australian governments provided $14.9 billion worth of spending and tax breaks to assist fossil fuel producers and major users, a 3% increase on 2023–24. Subsidies in the forward estimates have increased from $65 billion to a record $67 billion, a sum 14.2 times larger than the nation's $4.75 billion disaster response fund.[8]

We would also welcome a greater focus on demand side, energy efficiency and electrification measures across the broad economy, prioritising households, which would greatly improve productivity.

**The Productivity Commission should recommend:**

- That the Government develop and prioritise measures, complementary to the Safeguard Mechanism, that specifically benefit people and communities experiencing disadvantage and marginalisation.
- That fairness, equity and inclusion principles be embedded in the Climate Change Act to guide the development of climate mitigation and adaptation policies and processes.
- That the Government undertakes a review of distortionary tax measures in the context of achieving net zero emissions and develops a plan to phase out fossil fuel subsidies.
- That the Government accelerate implementation of demand side, energy efficiency and electrification measures across the broad economy, prioritising households.

**Create policy settings that enable and respect private adaptation decisions**

ACOSS agrees with the PC's analysis that climate change impacts will directly affect productivity growth and be a drag on productivity in many industries, and that the threat faced by Australia may be larger than other major economies.

The effects of climate change will also have a profound and unequal impact on people and communities experiencing disadvantage and marginalisation. The lack of resources, choice, control and other barriers means these people and communities are impacted first, worst and longest, by climate change. It also means that poverty and inequality will grow in Australia if economic rationalism - a set of ideas and policies that prioritise market mechanisms and individual self-interest in economic decision-making – drives solutions.

ACOSS is deeply concerned with the proposed recommendations on adaptation and insurance, which fail to acknowledge the complexities, lack of resources, choice, control and other barries millions of people in Australia face.

The Actuaries Institute of Australia report in 20024, finds insurance is already unaffordable for 15% or 1.61 million households in Australia, this is up from 12% in 2023 and 10% in 2022.[1] ACOSS research shows that almost a quarter of people on low-income or wealth do not have insurance and it is the first essential people experiencing financial stress give up.[2] In regions where extreme weather is worsening, the percentage of people unable to afford insurance is higher.

The argument that risk-based pricing of insurance is essential to motivate people to lower their risk by mitigating or moving away from high-risk areas ignores the many barriers facing people experiencing financial disadvantage, including:

- Factors that impact where people live include job availability, housing, affordability, cultural and community inclusion, transport, caring responsibilities.
- Lower-cost housing is often in areas more exposed to extreme weather events.
- Local councils and state governments continue to open land for development in high-risk areas.
- Lack of resources to afford to mitigate risk.
- Renters have no control over risk mitigation.
- First Nations people and communities living in remote communities.

The current market risk-based models are not meeting the needs of people and households now, let alone future climate models which predict worsening extreme weather across all regions.

Failure to access affordable insurance will increase poverty and inequality and will be a drain on productivity.

ACOSS recommends the Productivity Commission:

- Suggest to the Government that they establish a comprehensive review of affordable, accessible and quality insurance in Australia, having regard to the worsening impacts of climate change on frequency and intensity of natural disasters, and the complex social, economic and environmental factors in Australia. The review must include a focus on specific support for people experiencing financial disadvantage.[3]
- Support the ACCCs recommendation that the Government consider direct subsidies for people facing acute affordability issues.[4]
- Recommend the urgent updating of new building standards to achieve zero carbon and climate-resilient homes.[5]

- Recommend rental standards are developed to require landlords to improve the climate-resilience and energy performance of their properties.[6]
- Recommend financial support is provided to people on low incomes to improve the resilience and energy performance of their properties.[7]

**For further reading, see:**

ACOSS submission to Electricity and Energy Sector Plan Discussion paper
https://www.acoss.org.au/wp-content/uploads/2024/05/ACOSS-Submission-to-Electricity-and-Energy-Sector-Plan-discussion-paper-2024-Final.pdf

ACOSS submission to CCA Targets, Pathways and Progress consultaion
https://www.acoss.org.au/wp-content/uploads/2024/05/ACOSS-Submission-CCA-Targets-Pathways-Progress-2024-Final.pdf

ACOSS Blueprint Framework for Fair, Fast and Inclusive Action on Climate Change
https://assets.nationbuilder.com/acoss/pages/280/attachments/original/1713165438/FFI_Blueprint_Framework_part1_v08.pdf?1713165438